



ARMOUR ENERGY LIMITED

ACN: 141 198 414

**HALF-YEAR FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

CORPORATE INFORMATION

DIRECTORS

Nicholas Mather
William (Bill) Stubbs
Roland Sleeman
Stephen Bizzell

COMPANY SECRETARY

Karl Schlobohm

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

Armour Energy Ltd
Level 27, 111 Eagle Street
Brisbane, QLD 4000
P: +61 7 3303 0620
F: +61 7 3303 0681

SOLICITORS

Hopgood Ganim Lawyers
Level 8, Waterfront Place
1 Eagle Street
Brisbane, QLD 4000

SHARE REGISTER

Link Market Services Limited
Level 15, ANZ Building
324 Queen Street
Brisbane, QLD 4000

AUDITORS

BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane, QLD 4000

COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Securities Exchange Ltd
ASX Code: AJQ

INTERNET ADDRESS

www.armourenergy.com.au

AUSTRALIAN BUSINESS NUMBER

60 141 198 414

DIRECTORS' REPORT

Your Directors present their report on the company for the half-year ended 31 December 2014. Armour Energy Limited (the "Company" or "Armour Energy") is a public company limited by shares that is incorporated and domiciled in Australia.

Directors

The names of the Directors in office at any time during or since the end of the period are:

Nicholas Mather
William (Bill) Stubbs
Roland Sleeman
Stephen Bizzell

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

Principal Activities

The principal activities of the Company, and its subsidiary (the consolidated entity) during the half year involved exploration for economically viable reserves of both conventional and unconventional gas and associated liquids in the Northern Territory, Queensland and in the onshore Gippsland basin in Victoria in joint venture with Lakes Oil NL. There was no significant change in the nature of the activities of the Company during the half year.

Review and results of operations

The loss after income tax for the half-year ended 31 December 2014 was \$1,279,080 (31 December 2013: Profit\$772,249).

HIGHLIGHTS

- Queensland tenement ATP1087
 - Third party independent certifier estimates Contingent Resources relating to the Lawn Shale Formation in Egilabria 2DW1 of 364 BCF (3C); 154 BCF (2C); 33 BCF (1C) (SRK Consulting, July 2014);
 - Egilabria 2 DW1 well flowback recovery and testing program was completed, and is believed by Armour to be part of the most promising shale gas play in Australia to date;
 - Ongoing analysis of the Lawn and Riversleigh shales show world class Total Organic Content (TOC);
 - Memoranda of Understanding (MOU) signed for gas supply to both MMG Century's operations and Aeon Metal's Walford Creek project in North West Queensland.
- Northern Territory tenements:
 - A 9km² DCIP 3D geophysical survey was conducted within the Glyde Sub-basin;
- Victoria (JV with Lakes Oil):
 - Drilling of conventional well Otway-1 has been postponed due to the Victorian onshore drilling moratorium.

The following highlights have occurred since 31 December 2014:

- Armour's application for an Advance Finding under the Industry Research and Development Act 1986 has been approved, entitling Armour to a substantial cash rebate.
- Armour was awarded preferred tenderer status for Queensland Petroleum Land Releases 2014-1-2 and 2014-1-3.

QUEENSLAND TENEMENT ATP1087

Third party independent certifier estimated Contingent Resources relating to the Lawn Shale Formation in Egilabria 2DW1 of 364 BCF (3C); 154 BCF (2C); 33 BCF (1C)

As reported in August 2013, the Egilabria 2 DW1 (lateral) well was cased and hydraulically stimulated in the Lawn Formation in ATP1087. Armour Energy has a 100% working interest in ATP1087. The locations of ATP1087 and the Egilabria 2 DW1 well are shown in (Figure 1).

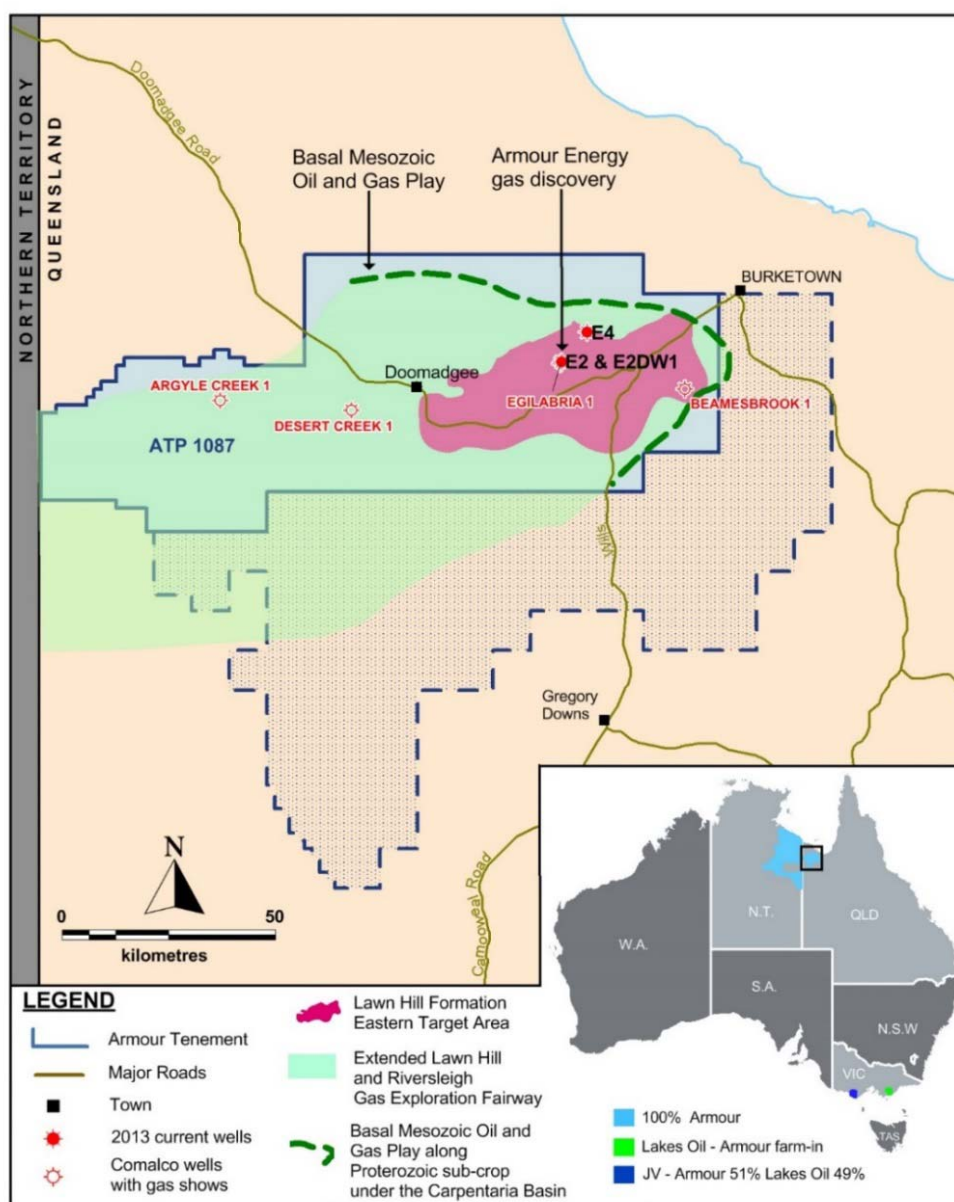


Figure 1: Map of ATP1087

During the flowback of stimulation fluids at Egilabria 2 DW1, the Lawn Formation produced gas at surface comprising very high methane content, together with ethane, helium, other inert gases and very little CO₂ and other inert gases. Gas production through an on-surface separator commenced after recovery of approximately 45% of the stimulation fluids.

SRK Consulting has provided an independent assessment of the Egilabria 2 hydraulically stimulated DW1, Lawn Formation, Contingent Gas Resource Estimation, ATP1087 as of July 2014. The results of this assessment are set out below in Table 1. The 3C Contingent Resource of 350 PJ covers an area of 64 km² around the Egilabria2 well. The entire Lawn Shale “fairway” is estimated to cover 1,500 km² (see pink area in Figure 1 above) within ATP1087.

Category	Net Gas Resources (less fuel and flare 5%)	
	BCF	PJ ⁽¹⁾
Total Proved (1C)	33.1	31.8
Total Proved + Probable (2C)	154.4	148.5
Total Proved + Probable + Possible (3C)	364.0	350.1

⁽¹⁾ Conversion 0.962 PJ/BCF

Table 1: Egilabria-2 DW1 Lawn Hill Formation, Contingent Gas Resource Estimation, ATP1087 (SRK Consulting)

Egilabria 2 flowback recovery and testing program was completed, and is believed by Armour to be part of the most promising shale gas prospect in Australia to date.

The aim of the test at Egilabria 2 was to prove the concept that horizontal well technology, together with hydraulic stimulation, can flow hydrocarbons to surface from the Lawn Shale. The well was drilled to test extraction techniques for gas resources known to be present at the well’s location. The well is considered to be experimental, testing drilling, completion, stimulation and production techniques.

As reported on 29 September 2014, the Egilabria 2 well had been continuously flowing gas through the test separator during the recovery of stimulation fluids by means of a downhole PCP (Progressive Cavity Pump).

Further significant progress was made after 29 September 2014, with continuous gas flaring observed (Figure 2). The well’s annulus pressure at surface increased further to 781psi and was continuing to rise prior to routing all gas through the test separator (Figure 3). Following the routing of both annulus and tubing flow through the separator, flows and flares from the well were observed to increase significantly, however a reliable measurement of a stabilised flow rate was not achieved.



Figure 2: Egilabria 2 well - ATP 1087, Queensland on 1 Oct 14 (left) and 8 Oct 14 (right).



Figure 3: Egilabria 2 well - Well and flow test apparatus.

A total of 64% of the original 11,400 bbls of stimulation fluids originally pumped into the well were pumped and flowed back.

The Egilabria 2 well is believed by Armour to be part of the most promising shale gas prospect in Australia to date. Gas samples from previous sample collecting and testing activities indicate more than 90% methane, carbon dioxide content of less than 2% and helium content of approximately 1%. These results have been achieved notwithstanding the fact that Armour believes that only 1 of the 12 fracture stimulation stages may have been successful.

Flow from the well stopped on 9 October 2014 following which the Company demobilised operations from the site. This is believed to be related to sudden pressure reduction as a result of the testing conditions at the time.

The Lawn Shale is present in Egilabria 2 between depths of 1,583 and 1,720 metres, at 137m thick, and hosts up to 8% Total Organic Content (TOC). During the drilling of the well in 2013, significant gas shows and flares were encountered between 425 and 1,870 metres vertical depth. However, these are yet to be stimulated or tested, and considerable further potential is considered to be evident at this depth.

The vertical exploration well Egilabria 4, also drilled in 2013 penetrated the Riversleigh Shale Formation below the Lawn Shale Formation. The analysis of results from Egilabria 4, combined with other data gathered to date including from Egilabria 2 has concluded that both the Lawn and Riversleigh Shale Formations are highly prospective.

Ongoing analysis of the Lawn and Riversleigh shales shows world class Total Organic Content (TOC).

The conclusions of detailed source rock analysis (SRA) has been consistent with Armour's view that the Lawn and Riversleigh Formations within the Isa Superbasin of Northern Australia have amongst the highest Total Organic Carbon (TOC) content of any shale play in Australia. Total Organic Carbon (TOC) is one of the key measures for a shale formation to be economically viable as it provides a measure for the capacity of the rock to generate hydrocarbons. A typical minimum TOC required for a shale is 2%. World class TOCs, such as seen in the commercial Marcellus Shale in the USA, are in excess of 5%. Both the Lawn and Riversleigh shale formations show sweet spots well in excess of these numbers with TOCs recorded up to 11%. Armour is very encouraged by these results.

Gas samples taken from the separator during the flow back of Egilabria2 lateral were fully analysed and show a very high methane content (90%), ethane (0.5%) and very little CO₂ (2%), helium (1%) and other inert gases (6.5%). This low CO₂ content is considered very positive as it alleviates any requirements for major gas processing facilities during the development phase, including CO₂ sequestration facilities. Additionally from a different sampling method, several isotubes of gas taken while drilling contained up to 6% helium.

During air drilling operations at Egilabria 2 and Egilabria 4, several pressure sealed canisters were filled with Lawn and Riversleigh cuttings as an exercise to understand if the shales would desorb gas. After several days, the canisters were reported to have a range of pressure values as high as 100psi. The canistered gas samples were taken from the high TOC intervals in the Lawn and Riversleigh shales.

Gas samples were drawn off the Egilabria 4 canisters for compositional analysis. Average nitrogen and oxygen corrected measurements (a lab technique that attempts to remove atmospheric contamination from the sample values) contained 83% methane which is similar to the 90% methane gas sample recovered from the separator that was purged of atmospheric contamination prior to post-stimulation gas sampling.

During sidewall coring operations at Egilabria 4, three sidewall cores were canistered and gas samples from those underwent isotopic analysis. The results of which strongly suggests the gas is thermogenic in origin. This provides evidence that the gas is derived through burial and heating of the original organic material that is now the rich TOC found in these shales.

Conclusions

Overall Armour believes it has made significant progress over the last 2 years in the South Nicholson basin towards the objective of 'cracking the codes' to flow gas at commercial rates. This progress has been made using experimental vertical and lateral drilling techniques using a variety of drilling bits and techniques, lateral casing and cementing strategies, cementing and completion techniques, well logging strategies and fracture stimulation techniques, never before attempted in the area. These techniques have contributed to the successful early results achieved and will be further improved over future drilling and testing programs.

The Company expects that with longer lateral sections and successful multi stage well stimulations, initial flow rates in excess of 10 mmscf per day are possible. As a comparison Armour points to the evolution of shale gas drilling, completion and production strategies adapted by Range Resources Corporation (a US\$11.5B corporation) exploring in the Marcellus Shale (north east USA) where flow rates increased from 30,000 scf per day to 14 mmscf per day over 8 wells. With the benefit of its encouraging early results, Armour intends to continue unlocking these plays as soon as possible with the support of a strong industry partner. Discussions are ongoing in this regard.

Memoranda of Understanding (MOU) signed for gas supply to both MMG Century's operations and Aeon Metal's Walford Creek project in North West Queensland

MOU with MMG Century

Armour signed a non-binding Memorandum of Understanding ("MOU") with MMG Century Pty Ltd ("MMG") to work together towards gas supply arrangements from Armour's exploration tenements in North West Queensland to MMG's Queensland operations.

MMG's Century Lawn Hill mine site is located on Armour Energy's 100% owned ATP1107 which covers 7,943km² and is pending grant by the Queensland Government. ATP1107 lies adjacent and south of Armour's 100% owned ATP1087 which covers 7,138 km² (Figure 4).

The initial stages of the MOU will involve a scoping study by the parties to evaluate project feasibility and economics of gas supply for potentially expanded on site power generation at MMG's Lawn Hill site, or development of new power generation facilities either on the Century mine lease or at greenfield sites between the mine and Mount Isa. Scenarios to be evaluated will include for MMG's current and possible future needs and potential third party customers' requirements.

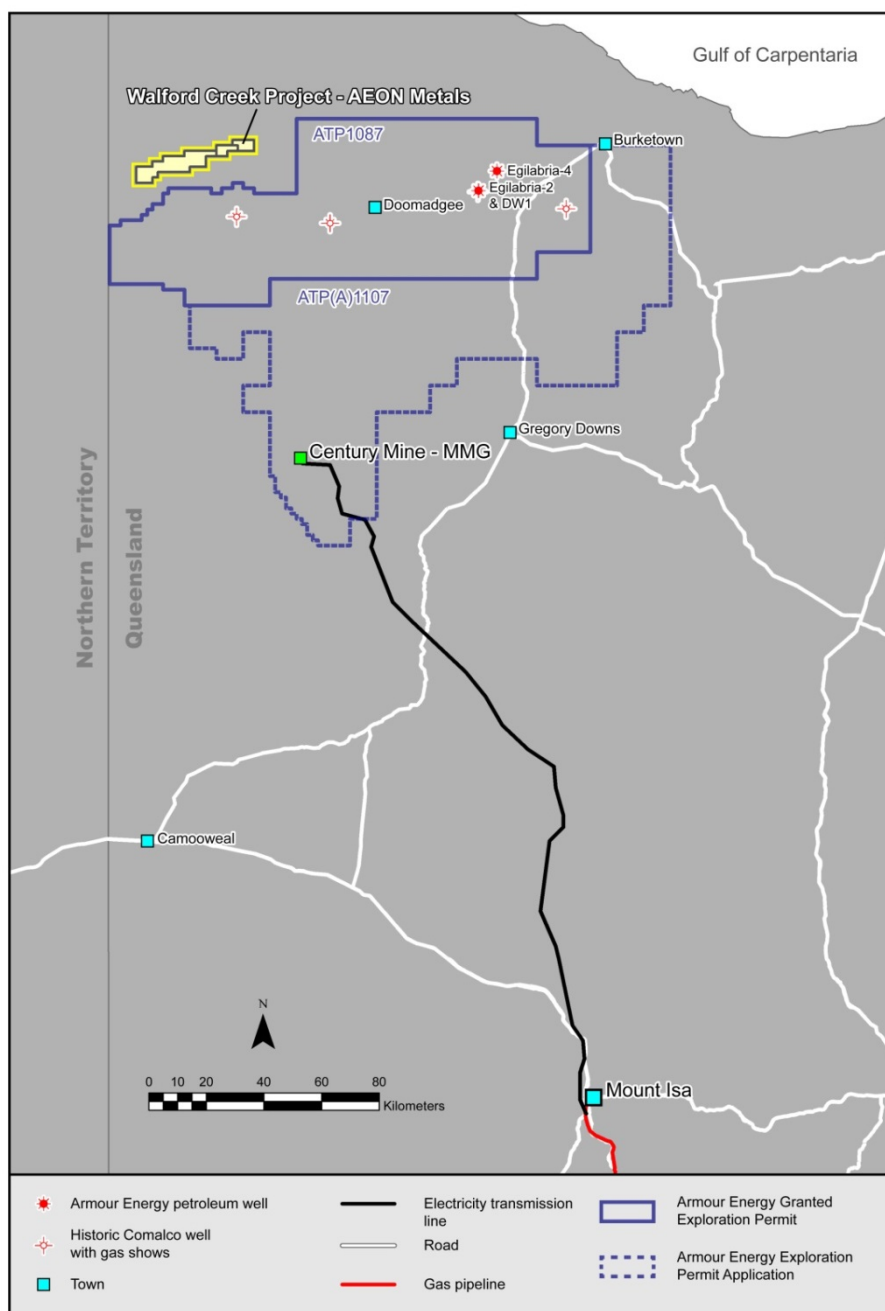


Figure 4: Location of MMG Century Mine and Aeon Metals' Walford Creek project

The study will evaluate gas supply volumes of up to 7-9 Petajoules per annum plus an overlay for potential third party requirements. Pricing will be determined so as to achieve a minimum return on invested capital for both Armour and MMG while providing "most favourable" price status to MMG compared with other gas sales contracts signed by Armour (other than contracts with upstream equity participants). Should Armour farm-out interests in its tenement to third parties, gas supply to MMG would relate to Armour's equity gas only, unless a future upstream partner elects to participate pro rata in the sale of gas to MMG.

The Century ore body, one of the most exciting base metals discoveries in Australia, has produced over 6 million tonnes of zinc in concentrate to date. While last production from the Century open pit is expected during 2015, MMG is continuing to investigate a number of options to further utilise its extensive infrastructure in the Gulf. An important driver of the feasibility of future projects for MMG is cost and availability of energy.

MOU with Aeon Metals

Armour has entered a Memorandum of Understanding ("MOU") with Aeon Metals Limited ("Aeon Metals") relating to gas supply from Armour's exploration tenements in North West Queensland to Aeon Metals' Walford Creek Project.

Aeon Metals' Walford Creek Project site is located approximately 10km North West from Armour Energy's 100% owned ATP1087 which covers 7,138 km² (1.8 million acres) (Figure 4). The Walford Creek Project has a clear pathway to project development with the potential for an open pit mine development of world scale. The 2014/2015 drilling program at Walford Creek has identified and delineated extensions of the existing mineralisations. Metallurgical studies are underway form part of the mining parameters that will ultimately support a feasibility study.

The MOU relates to gas supply volumes of 1-2 Petajoules (or approximately 1-2BCF) per annum. Pricing will be determined to ensure an acceptable return on invested capital for both Armour and Aeon Metals. In the event that Armour farms out its interests in its tenement to third parties, gas supply to Aeon Metals would only relate to Armour's retained equity in the gas project, unless a future upstream partner elects to participate pro rata in the sale of gas to Aeon Metals.

NORTHERN TERRITORY TENEMENTS EP176, 190, 191, 192

A 9km² DCIP 3D geophysical survey conducted within the Glyde Sub-basin

The Glyde 1 ST1 lateral well was drilled by Armour in August 2012 and flowed at 3.3 million standard cubic feet per day equivalent (mmscf/d) at a pressure of 125 psi during 45 minutes of testing on a 16/64 inch choke. This conventional gas accumulation was discovered by Armour in the Coxco Dolomite of the Teena Formation, a conventional, free-flowing reservoir in the Batten Trough, McArthur Basin. EP171 is 100% owned by Armour.

Armour conducted a 3D geophysical survey, using DC resistivity and IP chargeability (DCIP) technology over an area of 3km x 3km (9km²) centered around the Glyde discovery to assist in the definition of the vertical and lateral extent of the gas accumulation at Glyde. The results of this survey will be used with the objective of de-risking future wells in the Glyde area while Armour continues to evaluate the near term development of a project in this area. Such a project may utilise Compressed Natural Gas or Micro LNG facilities to deliver energy to remote mining operations and communities in the Northern Territory and/or the North West Queensland minerals province.

VICTORIA LAKES OIL JOINT VENTURE TENEMENT PEP 169

Drilling of conventional well Otway-1 has been postponed due to Victorian onshore drilling moratorium

Armour has previously reported that it was waiting on formal governmental approval to drill conventional well Otway-1 in PEP169, Victoria.

The Otway-1 well is considered highly prospective and is in close proximity to the Iona gas processing plant and nearby producing fields. If successful, Armour believes Otway-1 could provide an early cash flow option for the Company.

In May 2014, the Victorian Coalition Government announced its decision to put a hold on work plan approvals for onshore gas exploration until more information is available including evidence from the water study, community views, and industry impacts.

As a result of this decision, approval to drill Otway-1 is expected during 2015. In the meantime, Armour Energy will continue to focus on its exploration activities in Northern Australia.

Events subsequent to the half year ended 31 December 2014

Armour's application for an Advance Finding under the Industry Research and Development Act 1986 was approved, entitling Armour to a substantial cash rebate

Armour's application to AusIndustry for an Advance Finding under the Industry Research and Development Act 1986 was approved by AusIndustry. This entitles Armour to a substantial cash rebate that is expected to be received in the current quarter after the Australian Taxation Office processes the Company's 2014 financial year tax return.

Armour was awarded preferred tenderer status for Queensland Petroleum Land Releases 2014-1-2 and 2014-1-3

Armour was successful in its tender for Queensland Petroleum Land Releases (PLR) 2014-1-2 and 2014-1-3, which are located to the southwest of the Company's existing Queensland tenement position ATP 1087 and ATP(A)1107 (see Figure 5).

The two tenements increase Armour Energy's acreage position by about 5,400 km² (1.3 million acres).

From work done to date in its existing permits, Armour believes that prospective Isa Super-Basin sediments continue to the southwest, underlie both PLR 2014-1-2 and PLR 2014-1-3 and continue westward into the Company's Northern Territory tenements. Both the Lawn Shale and Riversleigh Shales are believed to be present. There are various synergies that exist in developing gas resources in ATP 1087 and ATP(A) 1107 and potential resources within PLR 2014-1-2 and PLR 2014-1-3.

Native Title Agreements and relevant environmental clearances will be required before Armour Energy can be granted an exploration permit over the preferred tender areas.

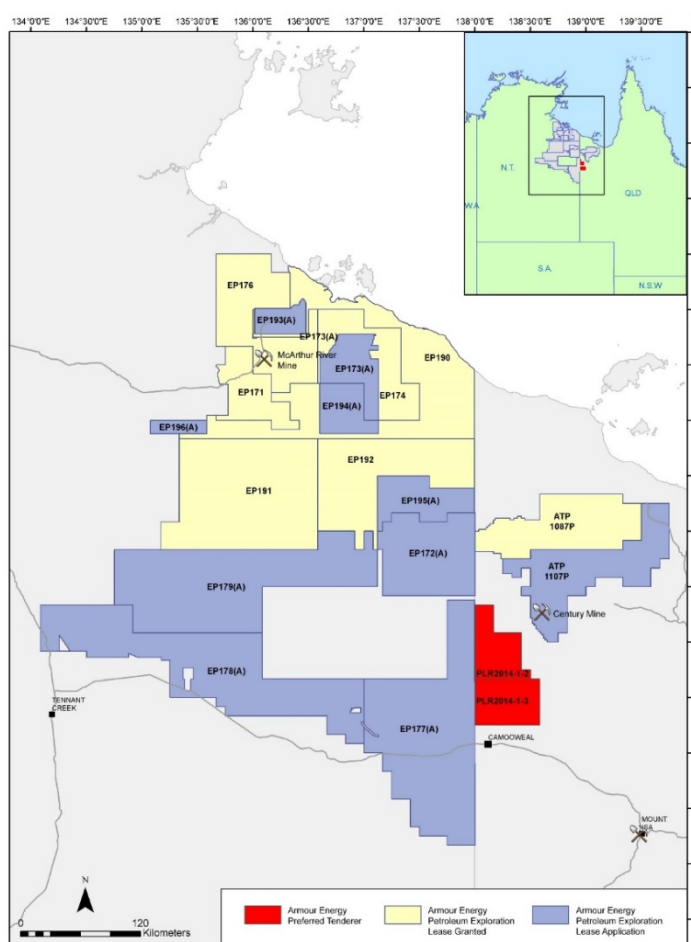


Figure 5: Location Map - PLR 2014-1-2 and 2014-1-3 in Queensland

DIRECTORS' REPORT (continued)

Events subsequent to the half year ended 31 December 2014 (continued)

On 6 February 2015, the Company issued 6,000,000 options to its employees under the Company's employee share option plan. The options have an exercise price of \$0.10 - \$0.30 each and expiring 6 February 2016 to 6 February 2018. The options vested immediately on grant.

Auditor's independence declaration

The Directors received an independence declaration from the auditor of Armour Energy Limited. This is attached on page 11 of this report.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in blue ink, appearing to read "Mather".

Nicholas Mather
Executive Chairman

Brisbane
13 March 2015

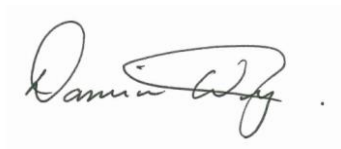
The July 2014 Resource Estimate covering the Lawn Hill Formation in ATP 1087 used in this report was compiled by SRK Consulting, who are qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

DECLARATION OF INDEPENDENCE BY DAMIAN WRIGHT TO THE DIRECTORS OF ARMOUR ENERGY LIMITED

As lead auditor for the review of Armour Energy for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Armour Energy Limited and the entities it controlled during the period.



Damian Wright
Director

BDO Audit Pty Ltd

Brisbane, 13 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Half-Year ended 31 December 2014

	Notes	31 December 2014 \$	31 December 2013 \$
The financial report of Armour Energy Ltd for (the "Company") the half year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 13 March 2015.			
	3	76,100	550,796
Other Income		2,220	1,202,800
Revenue and other income		78,320	1,753,596
Administration and consulting expenses		(774,504)	(1,562,813)
Depreciation		(32,262)	(37,140)
Employee benefits expenses		(668,182)	(989,792)
Legal expenses		(45,100)	(85,424)
Finance costs		(326)	(357)
Share based payments expense		(268,052)	(813,228)
Profit (Loss) before income tax		(1,710,106)	(1,735,158)
Income tax benefit (expense)		431,026	2,507,407
Profit (Loss) for the year		(1,279,080)	772,249
Items that will be reclassified to profit or loss			
Change in fair value of available for sale financial assets		2,014,000	-
Income tax on items that will be reclassified to profit or loss		(604,200)	-
		<u>1,409,800</u>	<u>-</u>
Other comprehensive income for the half-year, net of tax		1,409,800	-
Total comprehensive income for the half-year		130,720	772,249

Earnings per share		cents/ share	cents/ share
Basic earnings per share	4	(0.4)	0.3
Diluted earnings per share	4	(0.4)	0.3

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the Half-Year ended 31 December 2014

		31 December 2014	30 June 2014
	Notes	\$	\$
Current assets			
The financial report of Armour Energy Ltd for (the "Company") the half year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 13 March 2015.	5	1,535,214	6,474,941
Trade and other receivables		148,797	119,159
Other current assets		266,181	298,440
Total current assets		1,950,192	6,892,540
Non-current assets			
Other financial assets	6	9,493,157	7,406,817
Property, plant and equipment		143,663	170,309
Exploration and evaluation assets	7	74,725,874	71,443,454
Total non-current assets		84,362,694	79,020,580
Total assets		86,312,886	85,913,120
Current liabilities			
Trade and other payables		325,838	634,241
Provisions		86,239	53,828
Date: 13 March 2015		412,077	688,069
Non-current liabilities			
Deferred tax liabilities		2,972,895	2,799,721
Total current liabilities		2,972,895	2,799,721
Total liabilities		3,384,972	3,487,790
Net assets		82,927,914	82,425,330
Equity			
Issued capital	8	83,813,689	83,709,877
Reserves		3,198,121	1,520,269
Accumulated losses		(4,083,896)	(2,804,816)
Total equity attributable to owners of Armour Energy Ltd		82,927,914	82,425,330

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Half-Year ended 31 December 2014

	Issued Capital	Accumulated Losses	Available for Sale Financial Asset Reserve	Performance Shares Reserve	Performance Rights Reserve	Option Reserve	Total Equity
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	83,362,886	(1,110,387)	1,575,000	153,108.00	86,183.00	723,778	84,790,568
Loss for the year	0	772,249	-	-	-	-	772,249
Other comprehensive income	0	0	0	-	-	-	0
The financial report of Armour Energy Ltd for (the "Company") the half year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 13 March 2015.	-	772,249	0	-	-	-	772,249
Tax losses transferred to head company	-	-	-	-	-	-	0
Shares issued during the year	235,645	-	-	-	-	-	235,645
Share issue costs	-	-	-	-	-	-	0
Share based payments	0	-	-	(27,874)	19,408	785,694	777,228
Balance at 31 December 2013	83,598,531	(338,138)	1,575,000	125,234	105,591	1,509,472	86,575,689
Loss for the year	-	(2,466,678)	-	-	-	-	(2,466,678)
Other comprehensive income	-	-	(2,819,600)	-	-	-	(2,819,600)
Total comprehensive income for the year	-	(2,466,678)	(2,819,600)	-	-	-	(5,286,278)
Tax losses transferred to head company	-	-	-	-	-	-	-
Shares issued during the year	113,901	-	-	(36,000)	-	-	77,901
Share issue costs	(3,650)	-	-	-	-	-	(3,650)
Recognition of deferred tax assets relating to share issue costs	1,095	-	-	-	-	-	1,095
Share based payments	-	-	-	35,766	19,409	1,005,397	1,060,572
Balance at 30 June 2014	83,709,877	(2,804,816)	(1,244,600)	125,000	125,000	2,514,869	82,425,330
Date: 13 March 2015	-	-	-	-	-	-	-
Profit (Loss) for the year	-	(1,279,080)	-	-	-	-	(1,279,080)
Other comprehensive income	-	-	2,014,000	-	-	-	2,014,000
Total comprehensive income for the year	-	(1,279,080)	2,014,000	-	-	-	734,920
Tax losses transferred to head company	-	-	-	-	-	-	-
Shares issued during the year	108,654	-	-	-	-	-	108,654
Share issue costs	(4,842)	-	-	-	-	-	(4,842)
Recognition of deferred tax assets relating to share issue costs	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	268,052	268,052
Balance at 31 December 2014	83,813,689	(4,083,896)	769,400	125,000	125,000	2,782,921	83,532,114

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Half-Year ended 31 December 2014

	31 December 2014 \$	31 December 2013 \$
The financial report of Armour Energy Ltd for (the "Company") the half year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 13 March 2015.		
Payments to suppliers and employees	(1,730,679)	(3,479,608)
Interest received	70,073	764,237
Interest and other costs of finance paid	(326)	(357)
Research and Development funds received	21,330	7,106,464
Fuel Tax Credits	-	290,861
Net cash flows from operating activities	(1,639,602)	4,681,598
Cash flows from investing activities		
Payments for security deposits	(70,120)	(157,010)
Investment in available for sale financial assets	-	-
Purchase of property, plant and equipment	(5,615)	(21,295)
Payments for exploration and evaluation assets	(3,219,549)	(30,270,960)
Net cash flows from investing activities	(3,295,284)	(30,449,264)
Cash flows from financing activities		
Date: 13 March 2015	(4,842)	-
Net cash flows from financing activities	(4,842)	-
Net increase in cash and cash equivalents	(4,939,728)	(25,767,667)
Cash and cash equivalents at the beginning of the period	6,474,941	37,053,394
Cash and cash equivalents at the end of the period	1,535,213	11,285,727

NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year ended 31 December 2014

Note 1: Basis of Preparation of Half-Year Financial Statements

Corporate Information

The financial report of Armour Energy Ltd for (the "Company") the half year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 13 March 2015.

Armour Energy Ltd is a public company limited by shares incorporated and domiciled in Australia. The Company's registered office is located at Level 27, 111 Eagle Street, Brisbane, QLD 4000.

The nature of the operations and principal activities of the Company are described in the director's report.

Basis of Preparation

This general purpose financial report for the half-year ended 31 December 2014 has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This half-year report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial statements. Accordingly, this half-year financial report is to be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by the Company during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this half-year financial report as compared with the most recent annual financial report.

Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Company has net outflows during the period of \$4,939,727 and has available cash of \$1,535,214 at 31 December 2014, the Company also has not generated revenues from operations. As such, the Company's ability to continue to adopt the going concern assumption will depend on a number of matters including successful future capital raisings of necessary funding, entering into a joint venture or farm-in agreement with respect to its tenements, the realisation of its available for sale assets, the receipts of R&D tax incentive rebates, and the successful exploration and subsequent exploitation of the Company's tenements and/or sale of non-core assets. In the absence of these matters being successful, there exists a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and therefore, it may be unable to realise its assets and discharge its liabilities in the ordinary course of business. In relation to the above a substantial cash rebate is expected to be received in the quarter ending March 2015 under the Industry Research and Development Act 1986, following the Company's successful application for an Advanced Finding.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2: Segment Information

The Company has identified its operating segment based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on a geographic basis, which is the location of the respective areas of interest (tenements) in Queensland and the Northern Territory, Australia. Operating segments are determined on the basis of financial information reported to the Board. The Company does not yet have any products or services from which it derives an income.

Accordingly, management currently identifies the Company as having only one reportable segment, being exploration for shale oil and gas in Australia. The financial results from this segment are equivalent to the financial statements of the Company. There have been no changes in the operating segments during the half-year.

Note 3. Profit / (Loss)

Profit (loss) for the half-year includes the following items:

	31 December 2014 \$	31 December 2013 \$
(a) Interest revenue from:		
- Term deposits with financial institutions	52,250	259,935
- Australian Taxation Office	3,065	
- Lakes Oil convertible Notes	11,100	
(b) Other income:		
- Fuel Tax Credits	-	290,861
- Change in fair value on investments	2,220	1,202,800
Finance costs		
- Interest expense	326	357
Depreciation		
- Office equipment	9,359	10,840
- Motor vehicles	8,699	6,661
- Plant and equipment	14,204	19,639
Defined contribution superannuation expense	68,898	124,899

Note 4. Earnings Per Share (EPS)

(a) Earnings

Earnings used to calculate basic and diluted EPS	(1,279,080)	772,249
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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Half-Year ended 31 December 2014

	Number of Shares	Number of Shares
(b) Weighted average number of shares		
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	302,521,525	300,460,832
Weighted average number of dilutive options outstanding during the year	-	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the year, used in calculating diluted earnings per share	302,521,525	300,460,832

Options are not considered dilutive as they are currently out of the money. Options may become dilutive in the future.

	31 December 2014 \$	30 June 2014 \$
Note 5. Cash and Cash Equivalents		
Cash at bank and on hand	1,535,214	6,474,941

Note 6. Financial Assets

NON-CURRENT

Financial assets at fair value through profit or loss

- Australian Convertible Notes - 441,780

Available for sale financial assets

- Australian listed shares 8,502,000 6,044,000

Security deposits 991,157 921,037

9,493,157 7,406,817

Financial assets at fair value through Profit or Loss comprise investments in Convertible Notes of Lakes Oil NL.

Interest was payable half yearly at the rate of 50 cents per Note immediately following each Interest Payment Date (31 May 2013, 30 November 2013, 31 May 2014 and 30 November 2014), equating to a 10% per annum interest rate. Each Note converted into 5,000 Shares on the maturity date 30 November 2014.

Movements in Financial assets at fair value through

Profit or Loss

Opening Balance at beginning of period	441,780	4,900,000
Additions	-	-
Fair value adjustments through Profit or Loss	2,220	1,111,780
Conversion into shares accounted for as available for sale financial assets	(444,000)	(5,570,000)
Closing Balance at the end of period	-	441,780

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Half-Year ended 31 December 2014

	31 December 2014 \$	30 June 2014 \$
Note 6. Financial Assets (continued)		
Movements in financial assets at fair value through Other Comprehensive Income		
Opening balance at the beginning of period	6,044,000	4,502,000
Additions on conversion of convertible notes to shares at fair value through Other Comprehensive Income	444,000	5,570,000
Other additions	-	-
Fair Value adjustments through Other Comprehensive Income	2,014,000	(4,028,000)
Closing balance at the end of period	8,502,000	6,044,000

Financial assets at fair value through Other Comprehensive Income comprise investments in the ordinary issued capital of Lakes Oil NL and AusNiCo Limited, listed on the Australian Securities Exchange.

Note 7. Exploration and Evaluation Assets

Carrying amount at the beginning of period	71,443,454	44,653,760
Additions	3,282,420	26,789,694
Carrying amount at the end of period	74,725,874	71,443,454

Note 8. Issued Capital

(a) Issued and paid up capital

302,521,525 (2014: 301,390,240) ordinary shares fully paid	89,466,201	89,357,547
Share issue costs	(7,534,461)	(7,529,619)
Recognition of deferred tax asset relating to share issue costs	1,881,949	1,881,949
	83,813,689	83,709,877

(b) Reconciliation of issued and paid-up capital

	Number of Shares	\$
At 1 July 2013	300,000,000	83,362,886
Shares issued as partial settlement of employee bonus arrangements (\$0.34 per share, net of share issue costs - 29/08/13)	587,196	198,840
Performance options converted to shares (28/10/13)	180,000	36,000
Shares issued for cash (\$0.20 per share - 05/03/14)	325,000	65,000
Shares issued under employment contracts (\$0.16 per share, net of share issue costs - (05/03/14)	298,044	46,056
Recognition of deferred tax asset relating to share issue costs	-	1,095
At 30 June 2014	301,390,240	83,709,877

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Half-Year ended 31 December 2014

Note 8. Issued Capital (continued)

(b) Reconciliation of issued and paid-up capital (continued)

	Number of Shares	\$
Shares issued under employment contracts (\$0.15 per share, net of share issue costs - (18/07/14)	308,856	46,051
Shares issued under employment contracts (\$0.085 per share, net of share issue costs - (22/10/14)	484,857	39,599
Shares issued under employment contracts (\$0.059 per share, net of share issue costs - (22/12/14)	337,572	18,162
At 31 December 2014	302,521,525	83,813,689

Note 9. Future Exploration Commitments

Changes to the future exploration commitments disclosed in the most recent annual report are as follows:

	31 December 2014 \$	30 June 2014 \$
Less than 12 months	41,212,083	45,607,500
Between 12 months and 5 years	38,405,000	56,813,333
	79,617,083	102,420,833

Note 10. Contingent Assets and Contingent Liabilities

Exploration Liabilities

Under the Company's native title agreement over EP 171 and EP 176, the Company is required to pay the greater of either \$10,000 or 3% of exploration costs on each anniversary date.

Under the Company's native title agreement over EP 174, EP 190, EP 191 and EP 192, the Company is required to pay the greater of either \$5,000 or 3% of exploration costs on each anniversary date.

Under the Company's native title agreement over ATP 1087, the Company is required to pay the greater of either \$50,000, or:

- 3% of exploration costs within the preceeding financial year; and
- 1.5% of exploration costs incurred in the Shared Area within the preceeding financial year.

There are no other contingent assets and liabilities at 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Half-Year ended 31 December 2014

Note 11. Events after the Balance date

The Company's application to AusIndustry for an Advanced Finding under the Industry Research and Development Act 1986 has now been approved by AusIndustry. This entitles Armour to a substantial cash rebate that is expected to be received in the quarter ended March 2015, after the Australian Taxation Office processes the Company's 2014 financial year tax return.

On 6 February 2015, the Company issued 6,000,000 options to its employees under the Company's employee share option plan. The options have an exercise price of \$0.10 - \$0.30 each and expiring 6 February 2016 to 6 February 2018. The options vested immediately on grant.

DIRECTOR'S DECLARATION

The Directors of the Company declare that:

1. The attached financial statements and notes of Armour Energy Ltd are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.
2. In the Director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in blue ink, appearing to read "Mather".

Nicholas Mather
Executive Chairman

Brisbane
Date: 13 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Armour Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Armour Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Armour Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Armour Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

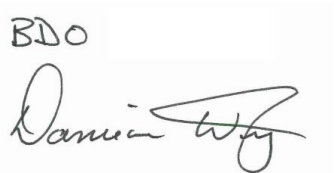
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Armour Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the successful future capital raising of necessary funding, entering into a joint venture of farm-in agreement with respect to its exploration tenements, the realisation of its available for sale assets, the receipts of R&D tax incentive rebate, and the successful exploration and exploitation of its areas of interest through development. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit Pty Ltd



Damian Wright
Director

Brisbane, 13 March 2015